End Of Tour Report
Joseph B. Goodwin

Covering the Period July 30, 1998 to September 26, 2002

October 2002

Sigma One Corporation

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by:

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Sigma One Corporation

In fulfillment of the following milestones:

1.1 Chief of Party/senior Policy Expert mobilized and performing in Ghana
2.1 Chief of Party/senior Policy Expert mobilized and performing in Ghana
3.1 Chief of Party/senior Policy Expert mobilized and performing in Ghana

October 2002 **Sigma One Corporation**

Introduction

On July 30, 1998 I[1] arrived in Ghana to assume the position of Chief of Party for the Sigma One Corporation contract team, charged with implementation of the improved policy reform and financial intermediation components of the Trade and Investment Reform Program (TIRP), an agreement between the Government of Ghana, represented by the Ministry of Finance and the USAID/Ghana. This activity is part of the USAID/Ghana Strategic Objective 1 (SO1) – increased private sector growth – as the means for helping Ghana to achieve the higher levels of economic performance needed to improve national well-being.

Two results packages have been identified by USAID/Ghana to achieve SO1. Results package #1 provides resources to help reform the policy framework and improve financial intermediation to enable Ghana to become more competitive internationally. Results package #2 provides assistance to the private sector to enable it to effectively respond to the opportunities created by the improved policy framework and improved access to financial resources.

Results package #1, is where the Sigma One Corporation efforts are focused. Results package #1 is to be accomplished through two intermediate results:

1.3 improved policy and regulatory environment by creating a participatory policy change process;

1.4 improved financial intermediation to facilitate growth in the private sector.

The participatory policy dialogue and reform process addresses key macroeconomic, trade, sectoral and investment policies and processes that are constraining rapid economic growth. The financial intermediation results aim to increase the participation of all Ghanaians in the financial markets and attract higher flows of international investment by improving the regulation and supervision of the financial system and promoting innovation in financial institutions and instruments.

The contractual mechanism under which Sigma One Corporation is implementing the project, is performance based rather than level of effort. Under the performance based contract Sigma One Corporation provided an annual performance milestone plan that served as the basis for the annual work plan. The initial performance milestone plan consisted of 83 separate milestones. However, given that a number of milestones were to be completed over more than one year, the total number of actual milestones to be originally completed was 172. In April 2002 the original Sigma One Corporation contract was amended. In the process of amendment, four milestones were substituted for and 30 others were added giving a total of 202 milestones to be achieved. Of this total, 152 were completed by September 26, 2002 and another 20 were in process.

[1] The views expressed in this end of tour report are solely mine and do not constitute or represent those of Sigma One Corporation or USAID/Ghana.

The balance of this report will focus on the implementation of the Sigma One Contract. The next section will focus on the principal accomplishments of the project in terms of major policy reform accomplishment, and the principal successes in implementing a successful public-private partnership in the policy reform process. The following section will discuss whether the accomplishments had a broader impact on the Ghanaian economy. The final section will discuss lessons learned from the project and apply them to the remaining life of project.

Major Accomplishments

In any project devoted to the accomplishment of policy reforms, success in the final analysis depends upon national commitment. The outside analysts can provide information on why reforms are necessary, the costs and benefits of reforms or the costs of not completing the reforms. However, it is the national government that in the final analysis must make the decision whether or not to implement the reforms. If a government is not committed to the reform process then the achievements from a policy reform activity will be limited. However, if the reform project has a component that also builds a case for reform to the broad body politic the chances for success are enhanced. The TIRP had as one of its components the promotion of public-private partnership in the policy reform process. Given the importance of this element, the discussion of accomplishments will start with the development of the public-private partnership.

Public-Private Partnership

The TIRP policy component has been able to foster a dialogue between the public and private sector that has facilitated the analysis and discussion of economic policy issues. This in turn has promoted the adoption of policy reforms. Vehicles that have been used to promote public-private dialogue under TIRP have been the National Economic Dialogue, the development of public-private groups to address economic issues such as labor market and financial sector reform, providing support to existing public-private sector groups such as the National Bond Market Committee, the utilization of seminars, workshops, conferences as well as working lunches and dinners where policy issues and analyses are discussed and debated.

The achievement of an active and effective policy dialogue process has not been easy. The original vehicle to promote public-private dialogue was the establishment of an Inter-Ministerial Committee on Competitiveness (IMCC). This Committee was to be chaired by the Minister of Finance, or his Deputy, in his absence. The IMCC was to provide: 1) overall policy guidance to TIRP; 2) inter-ministerial coordination; and 3) a forum for widespread public/private sector policy dialogue. The members of the IMCC represented the Ministry of Finance (MOF), the Ministry of Trade and Industry (MOTI), the Ministry of Food and Agriculture (MOFA), the Bank of Ghana (BOG), the National Development Planning Commission (NDPC), and the Private Enterprise Foundation (PEF) – representing the private sector. In addition, there were ex officio members representing USAID, the TIRP contractors/grantees and the International Economic Relations

Division (IERD) of the MOF. Other participants were to be co-opted to attend meetings on an as-needed basis.

Unfortunately, the IMCC failed as a vehicle to promote policy reform and dialogue due to a lack of interest and commitment by the leadership. After the first meeting, in September 1998, there were only three other meetings over the next two years. With the advent of the new government in 2001 the IMCC remained inactive.

A second mechanism for promoting public-private sector policy reform was, what was first called the National Economic Forum (NEF), and since 2001 has been called the National Economic Dialogue (NED). The NEF was the name given to a National Economic Forum held in Accra in September 1997, shortly after the North Carolina Conference (NCC). The latter was a conference for Ghana's public and private sector leaders financed by USAID/Ghana and hosted by Sigma One Corporation and the Frank Hawkins Kenan Institute of Private Enterprise at the Friday Center of the University of North Carolina in Chapel Hill, North Carolina (June 1-6, 1997). The NCC convened a broad cross-section of the Ghanaian polity to discuss difficult economic choices facing Ghana. The leadership at the NCC committed Ghana to international competitiveness as the way to promote broad-based and rapid economic growth. The participants recognized that the policy framework in Ghana at the time failed to promote broad-based and sustainable economic growth, because many aspects of the policy framework were stifling the economy's ability to compete internationally. The policy impediments to competitiveness were presented and discussed and recommendations formulated to address the impediments.

The NEF was held September 2-3, 1997 approximately three months after the NCC. The stated purpose of the NEF was to bring together people from the private sector, public sector and the general Ghanaian community to allow them to participate in a dialogue on the current state and future prospects of the economy in order to achieve a national consensus on pragmatic policy measures for accelerated growth under the framework of Ghana-Vision 2020. The key policy issues aimed at reducing inflation and unemployment. The forum itself was broken into four groups charged with the following tasks; regaining and sustaining macro-economic stability; accelerating economic growth with emphasis on agriculture; accelerating growth of the manufacturing sector and international competitiveness; and increasing employment opportunities and promoting human development. Each syndicate developed recommendations that were put into an action plan with a timeframe for action and responsible MDA's identified. It was the intent that the government would reconvene the NEF in 1998 or 1999 to report out on progress achieved and identify new priorities. However, no NEF was held in 1998 and in 1999, the Minister of Finance stated there would not be another economic forum like the one organized in 1997, until 2001. Given that support for an annual forum was one of the milestones in the Sigma One Corporation contract, the MOF and USAID/Ghana agreed that means of achieving the Milestone be redefined. Consequently, agreement was reached that the Milestone be redefined from an Annual National Economic Forum to National Consultations on Major Economic Issues. Further more it was agreed that the

National Labor Forum held at Sogokope, Ghana in 1999 would constitute fulfillment of the Milestone for the first year of the project.

In 2001 the newly elected government wanted to resume the national consultation process and called for the holding of a National Economic Dialogue in May 2001. The Ministry of Economic Planning and Regional Cooperation (MEPRC) was given the responsibility of organizing the NED. A NED Secretariat was created and Sigma One Corporation was asked to assist the Secretariat. The 2001 NED was the epitome of participatory policy change. Ghanaian economists were commissioned to prepare and present papers on critical economic issues for the NED (20 papers in all). These papers were presented and discussed at six workshops held before the NED. The issues and recommendations emerging from the workshops were then used to formulate the policy agenda to be discussed at the NED. Over 500 stakeholders attended the workshops and participated in setting the policy agenda. At the NED itself, attendance was over 400 policy stakeholders including the government, donors, civil society and the private sector. Emerging from the NED was a number of action recommendations. Sigma One Corporation staff worked closely with the NED Secretariat to develop the recommendations into an action plan that, for each recommendation, identified the issue, the recommended action and the implementing agencies. The Ned analysis and dialogue process, combined with the separate analyses that will be discussed below have resulted in a number of significant policy reform actions that have been completed or are underway. The principal economic and financial sector recommendations that have been addressed or are presently being addressed and their status are as follows:

1. In order to increase long-term savings; 1) review tax laws to create level playing field between SSNIT and other pension plans/savings schemes; 2) contributions to supplementary pension plans should be tax deductible.
   STATUS: In process as part of the long-term savings work underway by Sigma One Corporation.
2. MOF should create a desk to implement the financial sector strategic plan
   STATUS: Completed
3. Enforce a national identification scheme for credit information and other needs.
   STATUS: Under implementation. Proposal developed, contractors being selected.
4. Tax Identification Number (TIN) should be used as identification of Corporate Bodies.
   STATUS: In final stages of completion.
5. Bank of Ghana should facilitate the introduction of new financial products.
   STATUS: Government of Ghana Three-Year Indexed Bond issued in October 2001. Additional issues under consideration by the Bond Market Committee.
6. Government should ensure effective monitoring and evaluation of Public Finances and publish on a quarterly basis.
   STATUS: In process being assisted by Milestone 2.14 Monitoring Expenditure Control
7. Ensure effective monitoring and evaluation of the external accounts on a quarterly basis.

STATUS: In process with assistance of Milestone 2.37 Assist CEPS, MOTI, BOG and MOF to design a trade and tariff data reporting system

8. Create special bank account for Ghanaians in the Diaspora to enable them to invest in Ghana.
   STATUS: Completed.
9. Improve resource mobilization by reducing leakages and import exemptions to barest minimum.
   STATUS: A number of actions undertaken: 1) in 2002 application of 5% import duty rate to a set of major product lines that were zero-rated in 2001; 2) application of 1% processing fee on all remaining zero-rated imports and on items attracting a 10% concessionary rate; 3) Tightened management of Bonded Warehouses through tightening of security bond procedures and increase in registration fee of bonded warehouses from $3.00 to $2000.00 and $3,000.00 for Category A and B Warehouses. Exemptions granted in 2001 reduced to 1,014,382,770,617.00 Cedis from 2,458,710,173,950.00 Cedis in 2000. Enhanced auditing of Free Zones companies has generated 400 billion cedis in additional tax collections.
10. Strengthen tax collection agencies by providing increased incentives for tax collectors.
    STATUS: Parliament has approved legislation that provides for up to 3% of tax collections to be retained by tax agencies for own use.
11. Increase coordination and efficiency in tax collection.
    STATUS: Ghana Revenue Agencies Governing Board established incorporating all three-tax agencies under their management and control
12. Government borrowing should be closely monitored and controlled.
    STATUS: Government borrowing from the Bank of Ghana is to be controlled under Bank of Ghana Act 2002, the total of loans, advances, purchase of treasury bills and securities together with money borrowed by Government from other banking institutions and the public at the close of a financial year shall not exceed 10% of the total revenue of the fiscal year in which the advance was made.
13. Review Ghana's banking laws in consonance with the Constitution and propose changes to enforce the independence of the Bank of Ghana.
    STATUS: The Bank of Ghana Act, 2002 provided independence for the Central Bank as well as clarified its mandate and independence as follows: Section 3. (1) The primary objective of the Bank is to maintain stability in the general level of prices. 3. (2) Without prejudice to subsection (1) the Bank shall support the general economic policy of the Government and promote economic growth and effective and efficient operation of banking and credit systems in the country, independent of instructions from the Government or any other authority.
14. Harmonize the definition of money (M2+) with existing exchange control and legal tender regulation – banks should be allowed to keep reserves in currency in which they were mobilized.
    STATUS: The BOG has just agreed to allow banks to keep reserves in the currency in which they are mobilized.
15. Increase the transparency of BOG operations.

STATUS: The Governor has just established a Monetary Policy Committee with participation drawn from the public and private sector, including two economists drawn from local research institutes.

The National Economic Dialogue has proven to be a useful mechanism for promoting policy reform. The pre-NED sessions allow for the presentation of analysis that explains the need for certain policy reforms. This analysis serves to inform the stakeholders, which as a result advance the issue to the NED discussion, with a resulting recommendation for action. In the absence of the dialogue, it is more difficult for some of the issues to receive proper attention and debate. Focus should continue to be given to using the NED as an important instrument for the promotion of policy reform, as indicated above by the actions taken in implementing policy recommendations emerging from the financial and economic sector syndicates at the NED.

Collaboration with existing public-private sector groups such as the National Tripartite Committee and the National Bond Committee has also provided the opportunity to support significant policy reforms. The National Tripartite Committee composed of representatives from labor, employers and the government is responsible for addressing labor sector issues. These are extremely important issues as they impact on labor productivity. Labor productivity is the principal determinant of an economy's ability to compete in global markets because labor is the principal means of converting Ghana's resources into goods and service with international demand. In Ghana, as in all economies, the labor market always bears the burden of any or all distortions in the policy framework. The most notable symptoms of these distortions are low labor productivity and a labor market characterized by a huge informal sector. Labor in Ghana is costly, in spite of low wages, because of low labor productivity. Low productivity results from inadequate investment and poor labor practices. There had been emerging by 1999 a growing awareness that existing labor legislation needed revision. Sigma One Corporation had identified this area for attention as indicated by the inclusion of three milestones that dealt with labor issues (2.5 Development of a document to guide a Tripartite review of the labor market; 2.25 Draft Tripartite compact for increasing flexibility of the labor markets; and 2.27 Review of Draft Tripartite compact for increasing flexibility of the labor markets). While there was a growing awareness by all members of the Tripartite that new labor legislation was needed, there was the need for resources, financial and technical, to assist the process. The funding, guidance and discussion facilitated by Sigma One as well as the organization of a labor mission to Scandinavia, Japan and the US were all critical elements in helping the Tripartite group through the process of negotiating a new labor code for presentation to Parliament. The new draft legislation has been approved by the Cabinet and in May 2002 was forwarded to the Parliament. They will be considering the legislation in October when Parliament reconvenes.

Another example of the successful use of the policy dialogue process to promote policy reform was the assistance provided to the National Bond Market Committee in 2002. The Government of Ghana has identified the development of a national bond market as a priority. There is broad agreement inside and outside Ghana, that the development of domestic bond markets deserves a high priority on the financial sector development agenda. Bond markets are essential for a country to enter a sustained phase of development driven by market-based capital allocation and increased avenues for raising debt capital. Government bond markets are important in catalyzing the growth of overall bond markets. While there is no one general philosophy which can be applied to developing bond markets there are insights, lessons and strategies that can be gleaned from the experience of developed and emerging markets.

The orderly development of a bond market requires support mechanisms such as market infrastructure, clearing, and settlement systems. A National Bond Market Committee has been established to advise on the orderly development of a bond market in Ghana. The Committee has been charged to: 1) develop guidelines for the development of the bond market; 2) coordinate recommendations for reform of the legal framework relating to the bond market, including trading, clearing and settlement rules; 3) developing appropriate indicators for the performance of the bond market; 4) making and/or reviewing recommendations for improving primary and secondary market activity; and 5) making and/or reviewing recommendations for additional instruments for government debt. Sigma One Corporation was asked to assist the Committee in its efforts. As a result of meeting with the Committee leadership, Sigma One Corporation agreed to provide technical support that would allow the development and submission of recommendations to Cabinet for the orderly development of a bond market in Ghana. Sigma One Corporation resources provided support to a Secretariat for the Committee and provided funding to support a workshop (and international expertise) where the Committee recommendations were presented, discussed and revised before being put into an action plan to Government. The recommendations have now been finalized and submitted to the Finance and Economic Subcommittee of Cabinet for review and action.

In addition to collaborating with existing public-private sector groups, Sigma One Corporation fostered the creation of groups to examine specific issues. The most successful of these was the Financial Sector Consultative Committee (FSCC), responsible for the development of the Financial Sector Strategic Plan (FSSP). The FSCC was established by the Bank of Ghana as part of the TIRP. The idea for the FSCC evolved from discussions between Sigma One Corporation staff and senior management at the Bank of Ghana. The 45 member FSCC, working as a team, conducted an in-depth review of the current Financial Sector in Ghana, identifying strengths and weaknesses and looked at opportunities, threats and strategic options for the sector. From this analysis emerged a Strategy for the Financial Sector, with specific strategies and action plans for legal, regulatory and supervisory reform as well as recommendations for financial intermediation and innovation. Because the document was finalized in May 2000, there was little immediate follow-up because the government of the moment was focused on the November 2000 elections. However, with the broad support of the financial sector, the implementation of the FSSP was incorporated into the recommendations that emerged from the NED 2001. As a consequence, the Minister of Finance reviewed the document and declared that it would be implemented by the Government. He has created an office in the MOF charged with overseeing the implementation of the FSSP.

Public-private sector dialogue was also supported by presentations at seminars, workshops and conferences as well as working lunches and dinners where policy analyses and issues were discussed and debated. The issues and topics addressed in these various forums include; improving the budgeting process for the road budget; IRS Revenue Collection and compliance; the development of a new labor law; economic policy; the WTO; education, labor and human resource developments; competitiveness of rice production in Northern Ghana; tax administration; brain storming session on the economy (to brief the new Minister of Finance); a review of the economy with Dr. Anne Krueger; African Capital Markets, Free Zones and bonded warehouses; and revising the duty drawback system. A number of recommendations and follow-on actions have emerged from these sessions.

Summary. A number of vehicles have been used to promote and strengthen public-private partnership through enhanced dialogue. The dialogue has led to improved understanding of the policy issues confronting Ghana as well as corrective action. Over 3000 Ghanaians from the public and private sector have participated in the dialogue and more will become engaged in the last year of the project.

Areas of Major Policy Reform Impact

The above section discussed the project achievements in the development of an active and successful public-private sector policy dialogue process. Dialogue does not occur without information to inform stakeholders involved in the dialogue. In this section, I will present the areas of major policy reform impact, past, present and future. The areas are: 1) labor market reform; 2) revenue enhancement; 3) trade policy reforms; 4) SSNIT reform; 5) exchange rate management; and 6) financial sector reform and innovation.

Labor Market Reform. As discussed earlier, labor market policies and resulting performance are a principal determinant of international competitiveness. I believe that the support Sigma One Corporation provided to the Tripartite Committee in drafting a new labor code will have a significant impact on Ghana's competitiveness. Sigma One Corporation supported the process from the beginning at the Hotel Cisneros Conference in 1999 to its submission to Cabinet in 2000. As evidence of our impact, the key labor-related recommendations laid out by Sigma One at the Conference are either addressed or allowed by the draft of the new labor code. The recommendations were: 1) tie private sector wages to skills, not just tenure; 2) incorporate emoluments directly into wages; 3) make end-of-service benefits subject to negotiation instead of a mandatory benefit; 4) allow part-time and intermittent jobs in the formal sector; and 5) abolish the link between wages and inflation. The draft labor law has been approved by the Cabinet and will be considered by Parliament when it reconvenes in October. While there will be further debate and proposals for change in the draft law by both employers and labor, I believe that a revised labor code will be approved that represents a major improvement over the existing law.

Revenue Enhancement. Increasing Government tax revenue collections has been a significant impact of the project. In 1997, the year before TIRP began, Central

Government tax revenue collections equaled 15.13% of GDP. Dr. Robert Conrad, a Sigma One Corporation tax advisor undertook an extensive review of the Ghana tax system, and made a number of recommendations. As a result of the initial work, two Sigma One Corporation tax advisors reviewed the Internal Revenue Service (IRS) Collections system and recommended a program of training for the IRS collectors. The consultants prepared a revenue collections manual for the IRS and held a training of trainers course for the IRS. Given that the VAT Service was being assisted by the British Aid program, TIRP assistance focused on the issue of trade taxes. There were significant leakages of revenue, especially from imports as a result of zero duty rating and exemptions. In 1998, only 56.2% of imports paid duty; 17.6% were zero-rated and 26.3% were exempted from duty. Hence in 1999, a Sigma One team of consultants assisted the Ministry of Finance to review trade taxes and recommend actions to be taken to close tax loopholes. Bonded warehouses and free zones temporary exemptions were highlighted as problem areas. In 1998, temporary exemptions granted to bonded warehouses and free zones accounted for 40.6% of all exemptions. Of these approximately 88% were for bonded warehouses and 12% temporary exemptions for free zones. Bonded warehouses were identified as a tax loophole because, of the extreme divergence between the value of the goods entering the warehouses and the value of goods exiting. From the 1998 data, only 16.1% of the dutiable goods that entered bonded warehouses were recorded as exiting. Likewise, only 4.7% of the goods recorded as entering the free zones were recorded as exiting the free zones. This analysis mobilized the Government to review the oversight operations for the bonded warehouses and the free zones. There was a noticeable improvement in performance with respect to the Bonded Warehouses in 2000 (the last year for which we have the data). For the period January-August 2000, the ratio of warehouse exits to entries rose for dutiable goods rose to 68%, from 16.1% in 1998. For the free zones there was some improvement but it was not as appreciable. The ratio of exits to entries for the free zones rose from 4.7% in 1998 to 10.8% in 2000 (January-August).

In addition to improving management of the Bonded Warehouses and Free Zones, Sigma One Corporation consultants in 1999 recommended that the Government impose a one percent statistical fee on all imports. This measure was adopted by the Government in 2002.

The success of the tax measures in improving revenue collections from import duties and import VAT, can be seen by comparing the revenue collections in 1998 and 2001. In 1998 sales taxes on imports plus import duties totaled 3.97% of GDP, while in 2001 these same tax measures yielded 7.17% of GDP.

Trade Policy Reforms. Trade policy reforms have also been an area where Sigma One Corporation under the TIRP has had considerable success. Clear progress has been made in four areas. The first area is the reduction of the average level of tariffs and the reduction in the disparity between the highest and lowest tariff rates. Since 1998, the highest tariff rates were reduced from 25% to 20% while a number of zero-rated goods had their tariff levels increased from 0% to 5%. These changes were influenced by Sigma One Corporation recommendations as well as the TIRP NPA program. Numerous discussions between Sigma One Corporation staff and government leaders as well as Sigma One Corporation's analyses were useful sources of information with which to advise policymakers. The second area of progress was the reduction in tariff exemptions as discussed in the previous section. The third area of progress was the streamlining of the Bonded Warehouse system. As a follow-up to the 1999 study we brought in a specialist to review the bonded warehouse system and to identify specific measures that would further tighten management of the system. The recommendations from the consultant were reviewed with senior officials headed by the special advisor to the Minister of Finance. Key recommendations from the report were included in the policy measures presented in the Minister's of Finance speech for the 2002 budget. The fourth area where considerable progress was made was provision of timely duty drawbacks and VAT refunds to exporters. The issues of duty drawback and VAT refunds have been serious problems for Ghanaian exporters for a long time. Instead of proposed three month period for receiving drawbacks and refunds, exporters may wait for up to 24 months, without receiving any interest (in an economy with chronic high inflation). A proposal presented in July 2002 by a Sigma One Corporation consultant, John Holl has been accepted by both the government and the private sector as a major improvement. The new system will create an exporters drawback and refund account at the Bank of Ghana. This account would be funded from automatic deductions from CEPS and VAT collections that in turn would be used to finance the refunds. The amount of the daily deductions would be a percentage of receipts that would be sufficient to cover expected refund demand. If the demand is under-estimated the BOG would allow an overdraft until the rate of deductions are adjusted. This system, once in place, will address a serious problem for the export sector.

SSNIT Reform. A healthy financial sector is essential for the development of an internationally competitive Ghanaian economy. The Social Security and National Insurance Trust (SSNIT) in turn is an important part of the Ghanaian financial sector. Receiving monthly contributions of 60 billion cedis, the SSNIT is the "cash cow" of Ghana and could serve as an important source of investment capital to support private and export sector growth. One objective of the policy component of the TIRP was to review SSNIT with a view toward modernization. In 1999, Sigma One Corporation staff and consultants were asked to collaborate with SSNIT in a review of the investment program and make recommendations on a strategy for a sustainable investment program, that would fund current and future obligations of SSNIT while also allowing SSNIT to meet its secondary objective of undertaking investments which are development oriented. The review and subsequent report concluded that there were serious problems facing SSNIT that, if not confronted, threaten the very soundness of the organization. The reason for concern was that over the cumulative eight-year period ending December 1998, the return of investments in the SSNIT portfolio was a negative 12% per annum. The review found that the present pension scheme requires SSNIT to earn real rates of return of 7%-9% annually if it is to be sound and sustainable in the long term. Among the factors affecting SSNIT's performance were: 1) the subservience of the portfolio allocation system to other external requirements such as accepting payment by government in the form of unlisted securities; 2) the failure of the government to pay its contributions in the appropriate period, with no penalty on late payments by government;

3) the absence of a centralized investment department; and no acquisition or exit strategy; 4) SSNIT taking both debt and equity participation in portfolio companies; and 5) the objectives of the SSNIT scheme, while clearly articulated, are contradictory in theory and practice with too many investments in development-oriented activities which yield low (or negative) real returns. The report served as a wake-up call to SSNIT management, and a number of actions have been taken to address the weaknesses. Sigma One Corporation under the TIRP provided the assistance in 2000 in the following areas: 1) portfolio restructuring; and 2) reorganization.

In terms of portfolio restructuring, an in-depth review was conducted of the $72 million loan portfolio and loan provisions of $58 million was recommended of which $48 million was approved and incorporated into SSNIT's audited financial statements for 1998 and 1999. In addition, Sigma One Corporation advised on a series of debt/equity swaps that removed the cedi equivalent of $10 million in unserviced debt from SSNIT's books in 2000. A review of SSNIT's equity investments with a cedi equivalent of $56 million was undertaken, with remedial actions proposed for the investee companies, where it was deemed necessary.

In terms of reorganization, the Sigma One consultant recommended to the SSNIT Director General a strategic reorganization as an essential prerequisite for a lasting solution to the chronic problem of pension administration and asset management. He also reviewed and assessed the role and performance of senior managers and made recommendations for streamlining the organization. The loan workout and equity review meeting with investment managers also served as training sessions. The consultant also made recommendations to improve SSNIT policies and procedures, including preparing and submitting policies for lending activities and loan provisions.

The next phase of the Sigma One assistance will be to assist SSNIT leaders to develop and review strategies, which can contribute to private sector growth in Ghana through direct investment of SSNIT funds in the private sector of Ghana. One component of this work is to review with SSNIT their present portfolio asset allocation to determine, the possible level of funds that would be set aside for such investments, if they are found to be feasible. In addition, the portfolio review may recommend additional changes in the investment portfolio. A decision to make changes in the investment portfolio and/or invest funds into private sector firms, must be based upon careful analysis of the risks and returns involved. Issues to consider before recommending changes in the current investment strategies pursued by SSNIT include: an assessment of the potential expected returns to the SSNIT portfolio obtainable through the changes in the portfolio, including expansion of their portfolio to include investments in the private sector; development of a set of criteria for evaluation and selection of investments, including selection of potential private sector investments; development of an investment committee review board, and development of a system to monitor and review new and existing investments on a regular basis.

The expected outputs from this activity include; a review of the investment portfolio with explicit consideration of risks and returns from each element of the portfolio; increased private sector investment; the development of a set of explicit criteria for evaluating all investments; the creation of a system to monitor and review all new and existing investments; and a document that reviews the potential strategies to harness SSNIT pension contributions for private sector investments and recommends how to proceed. This activity is one of several complementary activities to improve financial sector performance. Related activities include the development of the bond market and the development of a long-term savings/private pension program as discussed in other sections of this report.

Exchange Rate Management. The corner stone of an export-led growth strategy is the maintenance of a competitive exchange rate. Successive governments in Ghana since independence have not committed to maintaining a competitive exchange rate but have often used the exchange rate as an anchor against inflation. This results in an appreciated cedi and a reduced incentive to export. The currency appreciation also reduces the amount of resources available to exporters to finance expansion. Lastly, the wide and continuous fluctuation in real exchange rates makes exporting a high-risk activity.

The experience of the period 1990-present is illustrative of the types of policies pursued. In 1990 there was a real depreciation of the exchange rate, followed by a real appreciation in 1991. However, in 1992, 1993 until September 1994 the real exchange rate depreciated. From September 1994 to October 1999 there was an appreciation of the real exchange rate by close to 40%. However, because the Government had not used the favorable terms of trade from 1997-1998 to build up reserves, but rather used the exchange rate as an anchor against inflation, the negative terms-of-trade switch in early 1999 meant that the exchange rate experienced a dramatic and severe depreciation, moving from 2300 cedis to the dollar in September 1999 to 3500 by the end of the year. Moreover, in 2000 the depreciation continued with the cedi over 6900 cedis to the dollar by the end of the year.

Sigma One Corporation has throughout the life of TIRP argued for a policy that would attempt to stabilize the real exchange rate and maintain export competitiveness. In fact even before TIRP began, at the North Carolina Conference Sigma One Corporation recommended that the Bank Of Ghana (BOG) cease using its foreign exchange reserves to support the cedi as one step in improving Ghana's international competitiveness. This recommendation was strongly re-emphasized in a 1998 paper in which the BOG was warned that continued pursuit of their policy of exchange rate intervention was setting the stage for a speculative attack on the currency. Subsequent to the speculative attack that took place in late 1999 and early 2000 the Sigma One Corporation position has seen increased support. In a 2001 review of and progress report on TIRP policy actions, both public and private sector representatives flagged this as on of Sigma One Corporation's signature issues. Sigma One's success in this area is also attributable in part to the working papers and numerous discussions that Sigma One staff and consultants had with the public and private sector leaders. As a consequence, some believe that we have demonstrated that exporters have been hurt by past exchange rate policies. While more needs to be done substantial progress has been recorded.

Financial Sector Reform and Innovation. Financial sector reform and innovation is an important objective of the TIRP. However, it was recognized by all that financial sector reform cannot take place in a vacuum, but must be built upon sound macroeconomic management that insures stability in prices and exchange rates. The present system cannot attract or reward domestic savings sufficiently to achieve a savings rate of 25% of GDP required for accelerated economic growth. In 1998 at the beginning of TIRP, there were missing institutions and instruments in Ghana's financial system and those that did exist primarily served the financing needs of government. Financial reform priorities included revisions of enabling legislation. Adequate financial supervision was needed to create confidence among savers and investors in Ghana's financial institutions. Pension reform and transparency in the SSNIT investment portfolio were listed as priorities in harnessing existing domestic savings.

Financial Sector reform and innovation is an area where significant progress is being recorded after a rather slow beginning, caused it seems in part to the Bank of Ghana not being fully in the loop as to the TIRP project and its policy reform agenda. As a consequence, the Sigma One Corporation TIRP financial sector policy activities seemed to have been viewed with a certain suspicion by the then Governor of the BOG.

In spite of the concerns it was possible to reach agreement with the BOG to collaborate on the development of a Financial Sector Strategic Plan (FSSP). The FSSP was prepared by the Financial Sector Consultative Committee (FSCC), a committee established by the Bank of Ghana as part of the TIRP. The FSSP was prepared with extensive consultations with regulatory agencies, financial institutions and other stakeholders of the financial system. The FSSP report included specific recommendations as to: 1) management of the industry; 2) on a number of legal, regulatory and supervisory issues; and 3) agency and sector specific recommendations. A number of recommendations were also made to address issues of financial intermediation, banking, the securities industry, insurance, micro-finance and financial innovation. In addition, a National Action Plan was prepared and made part of the report.

The FSSP was presented in May 2000 at the Financial Innovations Workshop for discussion and review. After the Workshop the FSSP was presented to the IMCC for consideration and adoption. While the IMCC adopted the FSSP at their last meeting in October 2000, with the upcoming elections there was no follow-up at the time. To put the FSSP on the agenda of the new Government after the 2000 election the implementation of the FSSP was highlighted at the pre-NED financial sector workshop, and was included as a NED recommendation. The Minister of Finance then requested a copy of the FSSP. After a review, it was adopted by the Government for implementation. An indication of the commitment of the MOF, a Finance office has been established in the Ministry and charged with the task of implementing the FSSP. Thus the FSSP should play a key role in the setting of the financial sector reform agenda for the next several years.

In addition to the FSSP, Sigma One Corporation recommendation for new and longer term financial instruments received a first response when the Government of Ghana initiated the three year Government of Ghana Index-Linked Bond. These bonds are issued with a guaranteed real interest rate of six percent. While one would think these bonds would be attractive instruments they are not popular with the financial institutions because the initial bonds issued, only paid a nominal six percent semi-annually with the principal and interest adjustment at the end of the three-year period. Now, however, the interest is inflation adjusted every six months. While the bonds are still not very attractive to the financial sector, they are to the government as it has stretched out the maturity of the government debt, simplified and eased the burden of debt management and provided fiscal relief in the form of deferred interest and principal payments. To ensure their purchase the government has required that a percentage of the bank's secondary reserves be invested in the index-linked bonds. Available statistics show that by March 31, 2002 the government had converted 1,254 billion cedis of the domestic debt of 8,270 billion cedis into index-linked bonds, with over 95% of the bond held by banks. Total immediate savings (in terms of deferred payments) to government from the bonds is estimated to be 998 billion cedis as of March 31, 2002.

While the index-linked bond is one example of new financial instruments available in Ghana, the government is aware that they are not the long-term solution. Therefore the government established a National Bond Market Committee to propose actions needed to accelerate the development of a national bond market with conventional as well as index linked instruments. Sigma One Corporation was requested to assist the Committee in their work. Sigma One Corporation provided both technical support and agreed to fund a National Bond Market Workshop where domestic and international experts would review progress and prepare recommendations to the Finance and Economic Sub-Committee of Cabinet. The assistance was provided, the Workshop held and in September 2002 a report was submitted to the Sub-Committee with detailed recommendations for improving the Government Debt Market. Once approved implementation action on the recommendations is to begin.

Another ongoing area of financial sector reform is that of development of long-term savings. The Government of Ghana wants to increase the supply of funds going into long-term savings. These savings would be used to increase private sector investments, serve as a stimulus for the growth of the Ghana Stock Exchange as well as provide for an enhanced income stream for Ghanaians as they retire. To increase long-term savings the Government is considering the introduction of legislation that would provide for tax deferred investment plans similar to the 401-K and IRA plans in existence in the United States.

Before introducing such legislation, the Government needs a careful analysis of the tax and investment implications of such programs as well as recommendations on how to structure such programs. In particular such an analysis should address the following points:

1. Analyze the forms of long-term savings plans in other countries, to understand the workings of their plans. This analysis should document the impact of the plans on the economies in general, and their ability to be used to generate investment capital.

2. Identify and analyze other long-term savings plans, Private Voluntary Funds, Pension Plans and Provident funds that may have been prepared by individuals or organizations in Ghana;
3. Propose one or more tax-deferred long-term savings instruments for use in Ghana;
4. Explore the tax implications to the State of these instruments, i. e. the potential revenue loss;
5. Estimate the annual investment benefit to be gained by the introduction of such tax-deferred long-term savings plans;
6. Prepare a set of minimum guidelines that the plans must adhere to, e.g. the maximum percentage (%) contribution of wages/incomes to be made;
7. Develop recommendations for protecting the assets accumulated under the proposed plan;
8. Determine the requirements for participating financial institutions and fund managers that may wish to participate in the scheme;
9. Collaborate with the Securities and Exchange Commission in drawing up the legal requirements for consideration by Cabinet for submission to Parliament; and
10. Identify and assist in other matters that would need to be resolved in order to ensure the successful implementation of the Long-Term tax-deferred savings plan.

Sigma One Corporation in response to a request by the Minister of Economic Planning and Regional Cooperation has undertaken the above analysis and is developing a proposal for a long-term savings program linked to private pension schemes. This work is underway. The expected result from this activity is the provision to the Minister of Planning a draft of legislation that he can present to Cabinet. This draft legislation would allow the establishment of tax-deferred long-term savings plans. These plans in turn would provide additional instruments by which Ghanaians could save, which in turn are expected to increase the level of private savings and investment. This would also provide one more financial innovation for the financial sector.

The new Bank of Ghana Act that was passed was given strong impetus and support from the NED process and the Sigma One Corporation adviser in the BOG. This historic Act specifies among other provisions that:

- The primary objective of the Bank is to maintain price stability “independent of instructions from Government or any other authority”. This has refocused the central bank on the major task of inflation control and away from the developmental activities which characterized the Bank’s operations in the past.
- Establishes a Monetary Policy Committee responsible for formulating monetary policy, which should bring transparency to the central bank’s operations and its communications with the public.
- Provides that Governmental borrowing from the central bank in any year shall be limited to 10% of its revenue, which ties the hands of government and the central bank in a way that is much stricter than the 20% ceiling which prevails in the CFA zone countries.

In addition to the above work Sigma One Corporation has prepared a number of reports on monetary policy that have raised awareness of a number of issues such as the need for increased transparency in setting interest rates. Other work has included a review of monetary policy instruments and the need to develop a plan/timeframe when the use of required secondary reserves is substantially reduced if not eliminated. Likewise Sigma One Corporation working through the NED was successful in the getting the issue of BOG independence approved by Parliamentary action.

Impact of TIRP Policy Activity on USAID Intermediate Results

The above sections related TIRP policy achievements in achieving enhanced public-private partnership and policy reform. This section will examine the above accomplishments within the context of the USAID Intermediate Results. The expected results from Tasks 1 and 2 from the Intermediate Results are as follows:

Expected Results from Task 1: Improved Policy Participation

1. A viable policy reform agenda to increase international competitiveness;
2. Ongoing participation of private sector in the policy dialogue and change process;
3. Increased public knowledge of policy reforms;
4. Implementation plans for agreed up-on policy reforms;
5. Streamlined procedures for importation of agricultural and industrial inputs;
6. Improved policies for the exportation of specific products such as wood, cotton, yams, etc.;
7. Elimination of export bans for products such as cotton lint, natural rubber, scrap metal, yams;
8. Enforced compliance with BOG policy eliminating foreign exchange controls for exporters.

Expected Results from Task 2: Improved Financial Market Instruments

1. An expansion of viable financial instruments used in Ghana;
2. A more aggressive and competitive financial services sector;
3. An increase in net domestic credit provided to the private sector;
4. A decrease in enterprises citing self-financing as a principal source of funds for expansion;
5. Increased linkages between the Ghanaian and global financial system.

Task 1 Results: Improved Policy Participation

Task One of the Intermediate Results (IR) package “Improved Policy Environment and Financial Intermediation” calls for the promotion of participatory policy change. The previous sections discussed the principal achievements thus far. The following discussion relates those accomplishments with the expected results listed above.

1. **A Viable Policy Reform Agenda to Increase International Competitiveness.** Four indicators for this result were listed in the Sigma One “Monitoring Plan for Measuring Progress on the Reform Agenda”. The first indicator was approval of the draft policy agenda. The approved policy agenda in Milestone 1.6 was approved in August 1998. That agenda has since been elaborated by the policy

recommendations resulting from the NED activities, in which syndicates, consisting of stakeholders agreed on policy issues, recommended actions and implementing agencies. These recommendations are presented in the National Economic Dialogue Action Plan, 2001. A second indicator, implementation of policy changes has been discussed in the two previous sections. As reported there a number of proposed policy changes have been implemented. The third indicator is increased exports. If one uses the value of exports as the measure of progress, the progress would appear to be negative as the value of exports has declined continuously over the period 1998-2001 (declining from $2,090.8 million in 1998 to $1842.8 million in 2001). The decline did not reflect a decline in competitiveness but rather reflected a decline in the world market prices of Ghana's exports. This is especially true for the non-traditional export sector.

In 1998, non-traditional exports (NTEs) in Ghana exceeded US$400 million (actually US$401,710.332). This represented an increase of 22.1% (or US$72,648,722) over the 1997 NTE levels which in turn were 19.1% over 1996 NTE levels. Given the increases that were occurring, it was anticipated that NTEs would exceed US$600 million by the end of 2001. Instead, NTE levels have stagnated at around US$400 million since 1998. A diagnostic analysis was undertaken to decipher the cause of the stagnation. Using the excellent statistical base of the Ghana Export Promotion Council (GEPC), the study identified the 51 products, which were exported annually over the period 1998-2000. These products accounted for 86.5% of NTE exports by value. Since the quantities of each product were given, unit prices were generated. Indices of prices and quantities were also generated for the years, 1998, 1999 and 2000 with 1998 as the base year.

The analysis revealed that, in general, the cause of stagnation of NTE exports earnings was not due to stagnation in the quantity of exports but rather as a result of fall in international prices. In fact, for the 51 products in the sample, if the quantity of goods exported in 2000 had received the export price prevailing in 1998, their export value would have totaled US$455,750.1 million rather than their actual value of US$346,488.5 million, an increase of US$109,261.6 million. If one valued the remaining NTE products at their 2000 value, then the value of non-traditional exports in 2000 would have been US$509,921.3 million.

These numbers suggest a much more dynamic NTE sector than the aggregate dollar value of exports suggest. In spite of price declines for a number of the products, production increased. Of the 51 products in the analysis, 39 recorded an increase in the quantity of goods exported in 2000 as compared to 1998. Not only did the 39 products increase their quantity exported but, in general the level of the increase was significant; 14 products more than doubled export quantities, 11 products increased the quantity exported by 51-100%, while the other 14 recorded increased export quantities of 1-50%.

One would have expected producers to respond to the fall in international prices by cutting back on production. This is not supported by the production numbers, which could be attributed to producer's response to the nominal/real depreciation of the Cedi in 1999-2000 periods providing a shield from the terms of trade shock. The performance of the NTEs over the 1998-2000 period demonstrates the value of having a diversified NTE sector. As severe price declines hit some products others faced improved export prices and were able to increase their share of NTE exports.

Therefore, the apparent stagnation of the NTE earnings can be attributed to prices falling and not stagnation in quantities supplied. This suggests that as world prices recover, NTE earnings can be expected to show rapid gains, assuming NTE production does not decline. To forestall any decline in production, exchange rate policy should be oriented to maintain a stable real exchange rate.

The last indicator for expected results was increased growth in real GDP. In fact, over the period, there was positive GDP growth in Cedi terms. Annual GDP growth over the period 1998-2001was; 4.7%-1998; 4.4% - 1999; 3.7% -2000; and 4.1% -2001. Despite this, all of the other indicators point toward the existence of a viable policy reform agenda being implemented.

2. **On-Going Participation of Private Sector in Policy Dialogue.** The discussion in the section on public-private partnership cited a number of examples where there has been active participation of the private sector in policy dialogue on critical issues. Four very prominent examples of this participation were the National Economic Dialogue, the Labor Bill, the development of the Financial Sector Strategic Plan, and the National Bond Market Committee. In each instance the private sector has played an active role in the formulation of the policy recommendations.

3. **Increased Public Knowledge of Reforms.** There are many opportunities for the public to be informed of policy changes, though more awareness is still necessary. Each daily newspaper reports on changes in policy. There are several weekly papers, such as the Business and Financial Times that focus on business and economic news. They are invited to the seminars, workshops and conferences that are held. Members of the press (print and radio) are free to attend and report on parliament meetings. More people now call to express their opinion on the latest political happenings. The NED has created a wider forum for discussion, and this year it was televised, so a much larger audience was reached. Sigma One Corporation through its seminars, workshops and conferences, to which public and private sector leaders are invited has expanded people's knowledge on economic subjects.

4. **Established Reform Implementation Plans.** The recent National Economic Dialogues have set in place implementation plans for agreed-upon policy reforms. In each of the areas addressed –"the private sector, agriculture, infrastructure,

energy, the economic and financial sector, syndicate, employment, human resource development, and basic services"– working groups consisting of the relevant stakeholders agreed on the issue recommended actions, and implementing agencies (NED Action Plans, 2001)

5. **Streamline Importation Procedures.** While export procedures have been successfully streamlined, that of imports still has challenges. Of particular challenge is the difficulty with which exporters receive VAT and duty drawback payments on their imported goods such as fruit packaging or industrial equipment. Where the delay for receiving VAT reimbursements should be about 3 months, it often takes up to two years to get the money back, if ever. This severely decapitalizes exporting firms. The new payment system proposed by Sigma One will resolve this problem, once it is in place. In addition, the completion of the new container terminal at Tema, combined with the introduction of new procedures in January, should greatly facilitate imports.

6. **Improved Export Policies.** Exporting procedures have been successfully streamlined on the ground. GEPC and private sector firms can confirm this. It is now easier for anyone to begin exporting because barriers to entry have been lowered. An example is the A4A form, which replaced the A2 form; the new form helps GEPC maintain a database of export values and volumes, but it does not require that exporters physically come to Accra to file it as the A2 form did. In 2000 there was an attempt by the Bank of Ghana to re-instate the A2 form. This would have been a significant setback for exporters. However, Sigma One Corporation, in cooperation with MOTI and FAGE, were able to convince senior officials to reject the proposal.

7. **Eliminate Export Bans.** As of January 1999, bans on the export of cotton lint, natural rubber, scrap metal and yams were lifted (Milestone 2.19). Sigma One did not directly influence this policy since it was completed before TIRP got underway. Nevertheless, previous Sigma One Corporation analyses affirmed the GOG's decision to eliminate the bans.

8. **Enforced Elimination of Foreign Exchange Controls on NTEs.** In January of 1999, Sigma One Corporation completed an action plan to enforce compliance with the BOG policy that eliminated foreign exchange controls. These controls involve two main issues: one, control of how much currency can be held in dollars by exporters, and two, reduced hassle over export forms. GEPC reports that exporters can now keep 100% of their earnings in dollars. This is an improvement over the 30%, then 70%, of export earnings that the government allowed exporters to keep in dollars just four to five years before. The majority of interviewees reported that the change from the A2 to the A4A form had greatly eased and simplified the export process. One private sector representative said the streamlining had been good overall, but commented that at times the A2 form was still being required, and that this was a problem.

3.2 Task 2: Improved Financial Intermediation

1. Expansion of Financial Instruments

In its TIRP proposal, Sigma One Corporation suggested several activities to increase the size and effectiveness of the financial system in Ghana. These included implementation of secondary market for GOG debt, the design of credit reporting service, and the introduction of an inflation index bond (Sigma One Corporation, 1998b). However, these initiatives have not been altogether successful, nor altogether appreciated by TIRP partners, some of whom commented that such specific suggestions of instruments on the part of Sigma One Corporation was a bit presumptuous without doing more market research.

With respect to an inflation-indexed bond, such an instrument was developed and offered for sale beginning in October 2001. The results of that experience were discussed in the financial sector reform section earlier in the paper. A second instrument is presently being presented to the financial market. This instrument from the BOG was designed with the participation of the Sigma One Corporation adviser at the BOG. The new instrument is called Cocoa Bills and is to be used to finance the purchase of the cocoa crop. The instruments as advertised, will be of 182 day duration, with the same discount rate as that of the 182-day Treasury Bills. Cocoa Bills will be acceptable as a secondary reserve asset for banks and re-discountable with the Bank of Ghana and on the money market. A unique feature of the Cocoa Bills is that they are redeemable in Cedis with option to have 30% of the redemption value paid in dollars at the mid-market exchange rate on the date of maturity to fund Letters of Credit payments and bills for collection.

Regarding a secondary market, legally this market exists. However, it will never be viable without a lower inflation rate, and training for administrators on how to use electronic methods of registering and exchanging the financial instruments.

2. More Aggressive and competitive Financial Services Sector

Sigma One Corporation's "Monitoring Plan for Measuring Progress on Reform Agenda" (1998) laid out in the indicators for this result: an increase in private sector loans, a decline in interest rates, and an increase in private sector savings. Private sector loans, as a percentage of total domestic credit, had been falling from a peak of 69% in 1996 to a low of 35% in 2000 before rising to 40% in 2001. Interest rates, exemplified by the T-bill rate, have fluctuated over the period, being 42.5% in 1997, to 26.8% in 1998, 31.5% in 1999, 42% in 2000 and then 27.7% in 2001 (ISSER State of the Economy Report 2001). However, private savings have fallen (ISSER, 2000).

3. Increase in Net Domestic Credit for the Private Sector

Access to long-term credit has not improved over the last three to five years. As noted above, private sector credit as a share of total domestic credit had declined over the period 1996-2000 before increasing in 2001. The increase in credit to the private sector was due to less credit allocated to the central government, consistent with the decline in central government borrowing. However, there was a disturbing increase in the percent of domestic credit going to public enterprises, in 2000 and 2001. The share of credit to public enterprises rose from 6.7% of total credit in 1999 to 11.2% in 2000 to 15.5% in 2001. The fuel price subsidy and consequent losses by the government oil refinery, explains the growth in lending to public enterprises. It also shows another negative aspect of government subsidies, masked by "voluntary" lending to public enterprises. Without the need to lend to the oil refinery to cover losses forced by selling petroleum below cost, that credit could have been available to finance private sector growth.

4. Decrease in Self-Financed Business Expansions

Self-finance is still the principal source of funds for expansion. The ISSER 2000 report shows that one additional company was listed on the GSE, but another was delisted, leaving the net number unchanged at 22 companies. Some companies and business enterprises obtain funds informally (via "sou-sou" systems in rural areas) or via international lenders in Europe or the US. The latter source is usually limited to multinational companies. Indicators of the degree of financial system formality in the economy (M2/GNP, currency as a share of M1, and quasi-money as a share of GDP) have been virtually unchanged over the past ten years.

A small and underdeveloped GSE also increases reliance on self-financing. Sigma One Corporation, provided a consultant to advise GSE on strategies for broadening the products listed on the stock exchange, with little success (Milestone 3.9). Reasons cited for lack of success include: GSE's ineffectiveness in self-promotion; the prohibitive administrative costs of going public, the lack of demand for publicly traded stocks; and the target organization to promote private stock issues since GSE has no power to attract companies to join it, only to facilitate their trading once they join. A more appropriate focus might be on the companies themselves, and the decision to go public or not. More companies might be induced to go public if the high administrative costs of doing so could be reduced. Demand for stocks might be increased by facilitating new investors' GSE involvement, such as insurance companies, by reducing restrictions on the types of investments they can make. Finally, much technical expertise with respect to scriptless, electronic management of stock trading is needed before the GSE will be popular and successful. According to some people, once all these needs have been met, GSE will reach a critical mass and begin to create a joining fervor among privately held companies.

However, there are other issues. One reason often cited as a deterrent to more companies using the stock exchange to raise capital is the assertion that many Ghanaians are still not used to transparency, especially in business dealings, and are not comfortable with the idea of other people knowing how and what business decisions are being made, nor relinquishing control of those decisions.

5. Increased Linkages Between Ghanaian and Global Financial Systems

Sigma One Corporation's "Monitoring Plan for Measuring Progress on Reform Agenda" (1998) laid out in the indicators for this result. The first indicator, foreign direct investment, shows a declining level of investment. In 1999, the Ghana Investment Promotion Center (GIPC) reported a foreign investment of $233.84 million. In 2000 the reported foreign investment declined to$132.06 million and in 2001 it fell further to $97.3 million. Among the factors influencing the decline was the deteriorating economy in 2000, the uncertainty caused by an election and the decision to go HIPC. The second indicator, a stable and realistic exchange rate, has not existed. While the Cedi has had period of relative stability for up to two years (September 1997-September 1999) this was followed by a large nominal and real devaluation, before undergoing a period of real appreciation in 2001. The third indicator, a strategy for improved monetary management, was completed in March of 2000. The final indicator, the rate of inflation, also showed mixed results: from an average of 19.3% in 1998, it declined to 12.4% in 1999, then increased to 25.2% in 2000 then increased to 32.9% in 2001.

Conclusions and Lessons Learned

During my four plus years as Chief of Party for Sigma One Corporation addressing the policy component of the TIRP, an ambitious program to support policy reform in the Ghanaian economy has been implemented. A number of significant and real policy reforms have been achieved. Sigma One Corporation and USAID/Ghana have played an important role in the achievement of the policy reforms. The reforms were accomplished, in spite of the failure of the IMCC mechanism that was created to provide the leadership for the policy reform agenda. Two important factors helped to overcome the IMCC failure. The first factor was the emergence of a strong public-private sector partnership. The second factor was the elections of 2000 in which a new government emerged that was more committed to pursuing an aggressive policy reform program.

The emergence of a strong public-private sector partnership began with the Trade and Investment Program (TIP), culminating in the North Carolina Conference (NCC) were leaders from the government, labor, private sector and civil society met to discuss the economic problems facing the Ghanaian economy. The report that emerged from the North Carolina Conference identified the problems facing the economy and provided a broad framework for addressing the problems. The North Carolina Conference was followed by several months later by a National Economic Forum (NEF), in which over 300 Ghanaian leaders had a follow-up session developing a policy agenda for implementation. This agenda was an important part of the TIRP policy agenda. While much of the policy reform agenda was not addressed in the period September 1998 – December 2000, the fact remained that for maybe the first time since independence there was broad agreement on much of what needed to be done to address the macroeconomic instability. Hence, with an election and a new Government elected in part because of the economic policy failures of the previous government, policy reform received a new momentum. Moreover, given that many of the key economic decision-makers had participated in both the NCC and the NEF, there was a broad consensus on the priority issues. Analysis was important as well. The Sigma One Corporation team had undertaken substantial analysis in the July 1998 – December 2000 period and much of it had been done in collaboration with resident Ghanaian economists.

The result was a greater policy impact in 2001 and 2002. An example was the Financial Sector Strategic Plan (FSSP). This was developed in 2000, by a public-private sector team of Ghanaians but received little attention, as elections were due shortly. However, The FSSP has now been formally adopted by the Minister of Finance and an implementation unit created to oversee implementation. Another example is the support provided to the National Economic Dialogue in 2001 and 2002, through provision of analysis and leadership by senior Ghanaian economists. This illustrates an important point that while projects such as TIRP can play an important role in promoting policy reform through analyzing the economic problems and informing the public and private sector of the results, the government must be committed to implementation of the reform, if it is to be successful. In the case of TIRP, the analysis and information sharing process is having a pay-off that will increase over the remaining life of the project.

The TIRP is being implemented as a performance-based contract, rather than the more usual level of effort contract. Having managed the TIRP policy program for 50 months, I believe that the performance based contracting mode offers some significant advantages over the level of effort contract. With the performance based contract, I had an agreed upon policy agenda to implement, in the form of Milestones to accomplish. That allowed me as Chief of Party to keep focused, and keep contract resources focused on the accomplishment of the Milestones. However, for the future use of this contracting mechanism, I would propose a change in use of the Milestones. One problem with the identification and fixing of all Milestones at the beginning of a five-year contract creates difficulties to address changes in circumstances, such as a change of Government, and change of priorities. Another case for flexibility is when a successful policy initiative identifies new opportunities for reform that could not be identified until after the prevailing constraint was addressed. While the contractor can request changes in the Milestones, the contractor runs the risk of being accused of trying to change the terms of the contract. One option for providing more flexibility to the process, would be for the Government Ministry, USAID and the contractor to review the Milestone plan each year and the contractor making selected changes in the Milestones, upon being requested to do so by the Government and USAID. Obviously, such changes would entail ensuring that the changes had no net resource implications for the contract, in order not to leave the contractor vulnerable to a situation where there remained uncompleted milestones at the end of the contract, due to the exhaustion of funds, as a result of milestone changes.

Clearly, the need to take changes in Government into account in identifying milestones must be considered in any follow-on policy project (or policy component) to the TIRP.

At present it would appear that if there were a follow-on project, it would begin implementation in 2004. With elections in late 2004, there could be a new government or Ministerial changes that might require some modifications in Milestones. Such changes can be addressed with the above-suggested procedure.

Another important consideration in the design of any follow-on project is to ensure that the leadership in all of the participating MDAs are active participants in the development of the project. In the TIRP, support to the BOG was clearly an important component of the project, yet the Governor seemed totally unaware of what TIRP was, and as a result was suspicious of it, since the Ministry of Finance was the lead agency for the Government. As a consequence it took a considerable amount of time and effort to secure his co-operation. As a result, departments in the BOG such as the Research Department were very hesitant to collaborate with us. While we were finally able to develop a working relationship with the Bank much time and important opportunities were lost.

In spite of these issues and difficulties, I have felt that the last 50 months have seen significant progress in the policy environment. We have been able to promote and support significant policy changes. I believe that the remaining months of the project will see even greater policy impact as the Sigma One team continues to build on the accomplishments to date. I only regret that family commitments will not allow me to see the project through to completion. It has been a pleasure to serve as part of the Sigma One Corporation team.